Q3 2022

IBBA INTERNATIONAL BUSINESS BROKERS ASSOCIATION.®

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MARKETPULSE

INTERNATIONAL BUSINESS BROKERS ASSOCIATION | M&A SOURCE | THIRD QUARTER 2022 SURVEY

A full copy of the Market Pulse survey results is available to IBBA and M&A Source members who participate in each quarterly survey. This is a 100-plus page document of up-to-date, relevant information on the state of the marketplace.

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The IBBA and M&A Source Market Pulse

SURVEY REPORT Q3 2022

The quarterly IBBA and M&A Source Market Pulse Survey was created to gain an accurate understanding of the market conditions for businesses being sold in Main Street (values $0-$2MM) and the lower middle market (values $2MM -$50MM). The national survey was conducted with the intent of providing a valuable resource to business owners and their advisors. The IBBA and M&A Source present the Market Pulse Survey.

The Q3 2022 survey was conducted October 1-15, 2022 and was completed by 499 business brokers and M&A advisors. Respondents completed 452 transactions this quarter. This is the 42nd edition.

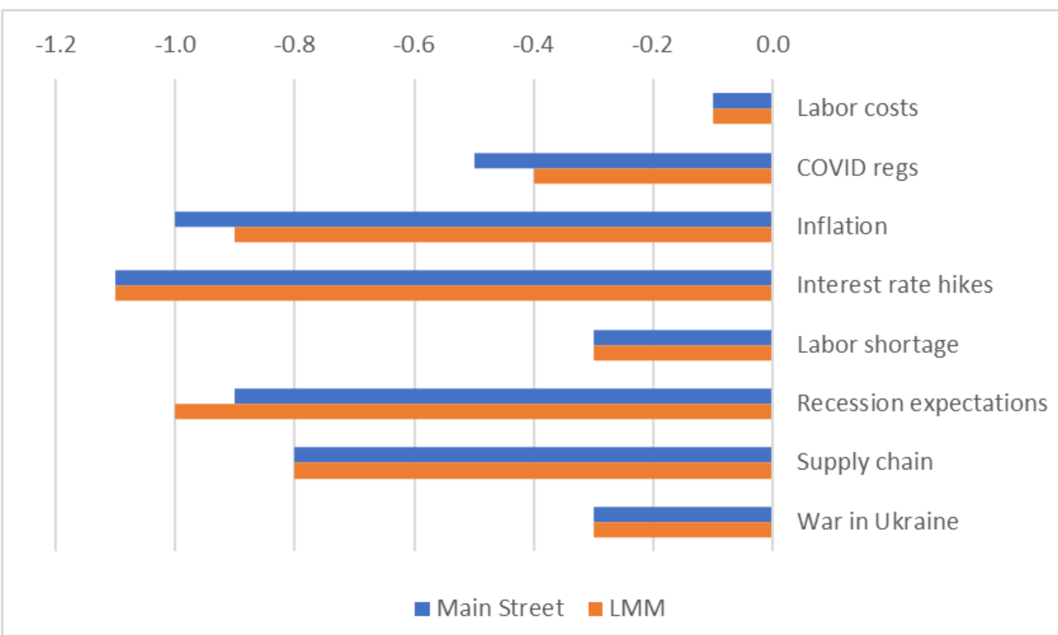
FIGURE 1: MARKET SEGMENTS STUDIED

MAIN STREET	LOWER MIDDLE MARKET
Less than $500K	$2MM - $5MM
$500K - $1MM	$5MM - $50MM
$1MM - $2MM	

Confidence Dropping But Current Valuations Strong

Last quarter, advisors pointed to labor shortages as the biggest negative impact on M&A. Now that issue doesn't even reach their top four concerns. Today advisors largely point to economic issues (inflation, interest rate hikes, and recession expectations) along with persistent supply chain issues as factors impacting the market.

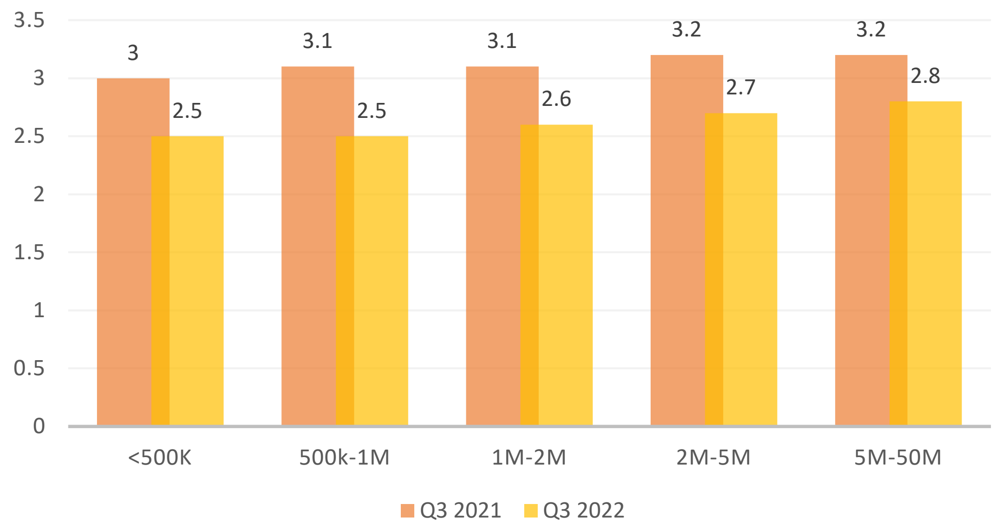
FIGURE 2: SOCIO-ECONOMIC FACTORS AFFECTING MARKET CONDITIONS



Reflects factors having a negative impact on the market, according to a 5-point scale: very negative, somewhat negative, no effect, somewhat positive, very positive, per survey respondents.

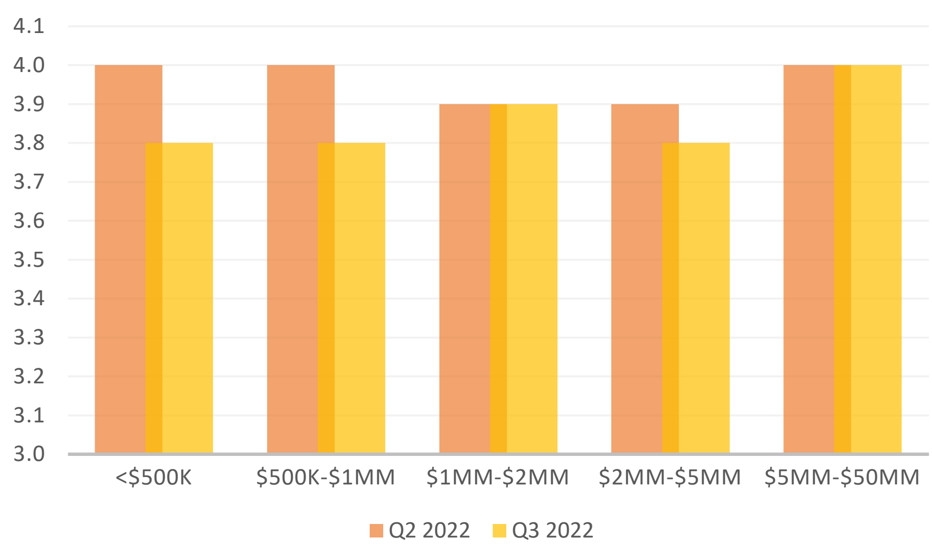
Market optimism is dropping, as approximately 40% of advisors predict the Main Street and lower middle markets are headed for a decline in the year ahead. The remaining 60% are roughly split on whether they believe market conditions will stay the same or improve. Overall sentiment (as shown in Figure 3) indicates advisors believe valuations are headed for a downtick.

FIGURE 3: EXPECTATIONS FOR BUSINESS VALUATIONS, 5-POINT SCALE



And yet, despite concerns over market headwinds, advisors continue to report a strong influx of new engagements, despite being slightly less than last year. More than 50% said their number of clients "greatly increased" in Q3 2022. And as we'll see in valuation reports (Figure 5), current market performance remains strong.

FIGURE 4: CHANGE IN NEW CLIENT ENGAGEMENTS YEAR OVER YEAR, 5-POINT SCALE



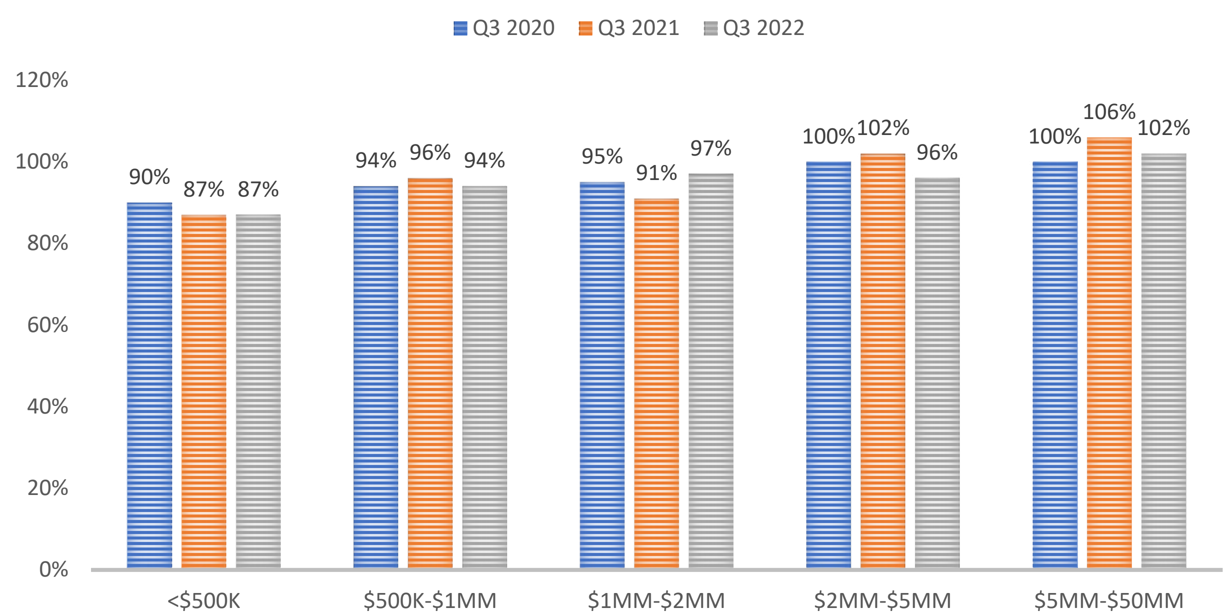
"Many sellers go to market when they're tired or burned out," said Bill Nicholson, owner of Sunbelt Dallas Metro. "Business owners haven't had a 'normal' year since 2019. With headwinds still ahead, we could see a lot more Boomers calling it quits rather than weather any more unpredictability."

Business Value

Most sellers continue to receive valuations at 94% of benchmark or better. Multiples were steady or better in all but the highest value market sector.

For businesses with enterprise value of $5 million to $50 million, survey results are intriguing. Those businesses received valuations at 102% of benchmark, even as multiples declined from their peak. It's worth noting that last year's Q3 2021 multiple of 6.8 in this sector represented an all-time high in the 10-year history of the Market Pulse Report. The median EBITDA multiple these companies received was 5.3 last quarter (Q2 2022).

FIGURE 5: AVERAGE SALE PRICE REALIZED TO ASKING/BENCHMARK PRICE



<$1M in Purchase Price typically goes to market with an asking price whereas those in the $5M-$50M typically go to market without an Asking Price, however, with an expectation of what buyers will most likely pay. Those between $1M & $2M may fall in either camp. It greatly depends upon type of Buyer.

FIGURE 6: MEDIAN MULTIPLES

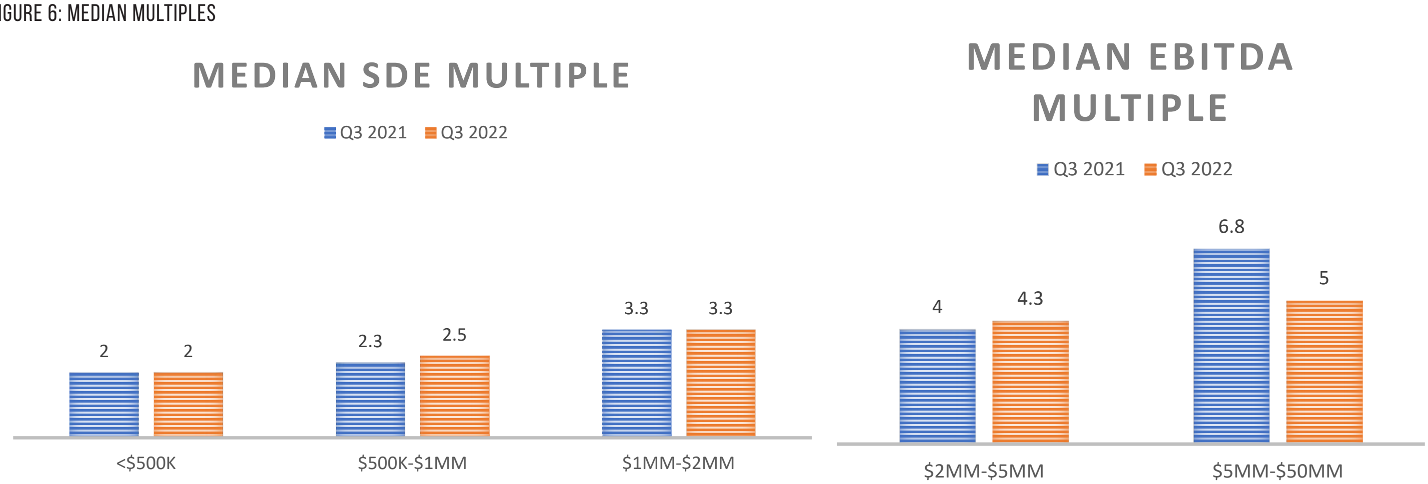
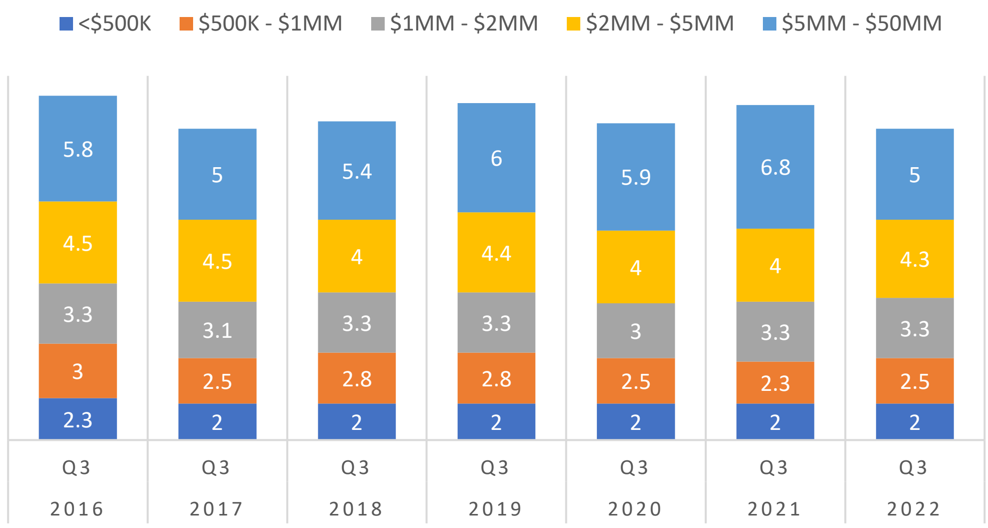


FIGURE 7: Q3 MULTIPLES 2016-2022



<$500K - $2M in Purchase Price reflected as multiple of SDE (Seller's Discretionary Earnings); $2M-$50M as multiple of EBITDA (Earnings Before Interest, Taxes, Depreciation & Amortization).

"Confidence may be declining, but deals are still happening, and the market is still driving a premium for quality businesses," said Randy Bring, Senior Associate/Partner Transworld Business Advisors. "There are a lot of media sources there telling us the sky is falling, but it's still up there and the sun is still shining – for now. Of course, poor confidence can become a self-fulfilling prophecy."

"We're in unusual times. Even though signs are pointing to a recession, there's a record amount of capital ready to be deployed from both corporate and private equity buyers," said Jeff Swiggett, President of VR Business Sales Mergers & Acquisitions. "While inflation and interest rates will have some effect on transactions, it won't throttle them."

"Confidence is one thing, but actual market performance is something else. We'll continue to see sellers coming to market in hopes of getting ahead of a recession," said Lee Sheaffer, Owner of BizReady, Inc. "Until we see strong indicators that values are truly declining, we expect sellers to move ahead with their exit plans."

As one anonymous respondent commented: "Interest rates are slowing some transaction closings, disqualifying some buyers and moving them to a lower range. But overall there's still significant cash available and the pool of buyers remains strong."

Deal terms

Financing structures remain relatively consistent year over year. In depressed market conditions we would expect to see an uptick in seller financing and earnouts. That has not materialized yet.

FIGURE 8: Q3 DEAL TERMS, 2021 & 2022

	Q3 2022 Cash at Close*	Seller Financing	Earn Out	Retained Equity	Q3 2021 Cash at Close*	Seller Financing	Earn Out	Retained Equity
<$500K	84%	12%	2%	-	84%	11%	2%	1%
$500K-$1MM	86%	9%	2%	-	83%	14%	1%	-
$1-$2MM	84%	12%	1%	-	85%	6%	1%	-
$2-$5MM	85%	10%	2%	-	89%	13%	-	-
$5-$50MM	84%	12%	2%	1%	88%	6%	1%	3%

* Cash at close reflects a combination of buyer's equity and senior debt.

Meanwhile, Figure 9 shows deal terms 10 years ago when the country was still climbing out of the Great Recession and long-term unemployment was at a post-WWII peak.

FIGURE 9: Q3 DEAL TERMS 2012

Q3 2012	Cash at Close*	Seller Financing	Earn Out	Retained Equity
<$500K	75%	14%	1%	
$500K-$1MM	70%	17%	3%	2%
$1-$2MM	71%	15%	6%	1%
$2-$5MM	74%	17%	1%	
$5-$50MM	55%	10%	10%	

* Cash at close reflects a combination of buyer's equity and senior debt.

"Historically, multiples don't shift much off the median, particularly in the Main Street market," said David Ryan, President of Upton Financial Group. "It's in the deal terms where we see recessionary conditions play out. We could see higher seller financing requirements, higher earnouts, and greater reliance on alternative financing options like mezzanine debt."

"As we enter into a period of economic uncertainty, it's more important than ever to have experienced representation at the table," Ryan continued. "Ideally, you want to bring multiple buyers to the table and create an auction-like environment. Even when that doesn't create a big swing in the offer price, it can mean significant advantages in deal terms."

"People talk about how confidence is slipping, but deal terms show just how strong the market really is," said Sarah Grossman, owner of BayState Business Brokers. "Yes, certain industries have been impacted more than others. But for many business owners it's still ***not a bad time to sell.****"*

Exiting Without A Plan

Even though retirement is far and away the biggest reason sellers go to market, most business owners are doing little to no exit planning. The smaller the business, the less likely owners are to plan. Of those owners who did plan, most started less than a year before putting their business on the market.

"We all know that market conditions can change on a dime. The pandemic drove that home for today's business owners. But working with their advisors in advance and having various exit plans and succession plans on the table can help business owners respond faster when the market shifts," said Lisa Riley, President of Delta Business Advisors, LLC. "Sellers have more options and are generally positioned to get a higher value when they ***make exit planning an ongoing part of their business plans****."*

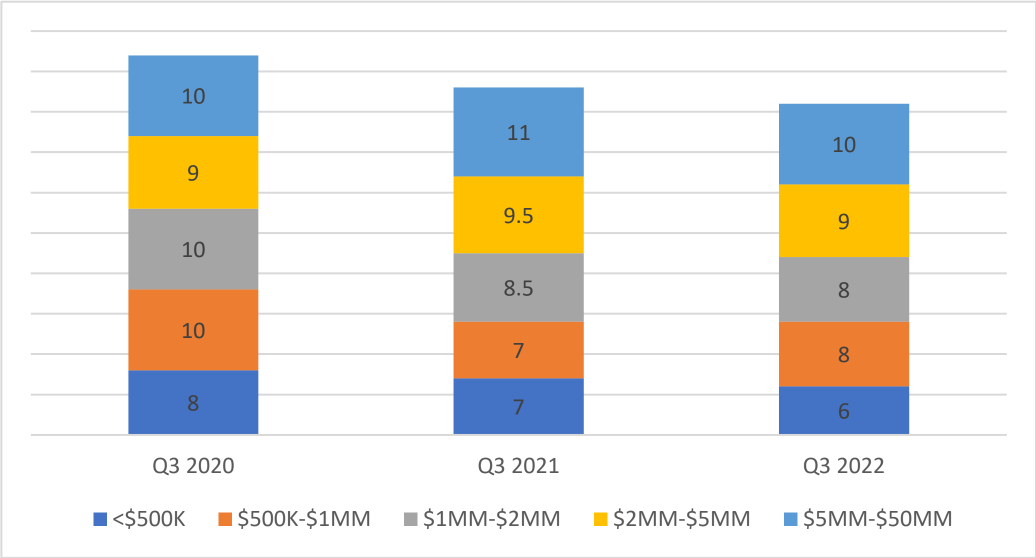
FIGURE 10: OWNERS WHO ENGAGED IN NO FORMAL PLANNING PRIOR TO ENGAGEMENT TO SELL

"There's a widening gap between what a good quality company earns in a sale and what a company with a few warts or weaknesses will garner," said Scott Bushkie, President of Cornerstone Business Services. "In uncertain times, buyers make a flight to quality. They're bypassing riskier options and doubling down interest in established strong performers. That's why now, more than ever, it's important to plan ahead."

Time To Close

Main Street businesses are selling at a faster pace. That's generally reflective of a strong market with motivated buyers.

FIGURE 11: MEDIAN MONTHS FROM LISTING/ENGAGEMENT TO CLOSE



Know Your Buyer

<$500,000: Buyers in this sector were:

- First time buyer (44%), serial entrepreneurs (33%)
- Motivated to buy a job (43%), gain a horizontal add-on (27%)
- Located within 20 miles (61%)

<$500K-$1MM: Buyers in this sector were:

- First time buyers (39%), serial entrepreneurs (33%), or existing companies (25%)
- Motivated to buy a job (36%), gain a horizontal add-on (36%)
- Located within 20 miles (53%) or more than 100 miles (26%) of the seller's location

$1MM-$2MM: Buyers in this sector were:

- Serial entrepreneurs (40%), strategic buyers (32%), first time buyers (24%)
- Motivated to gain a horizontal add-on (31%), buy a job (27%), realize better ROI than other investment (21%)
- Located more than 100 miles (39%) or within 20 miles (31%) of the seller's location

$2MM-$5MM: Buyers in this sector were:

- Strategic buyers (37%), serial entrepreneurs (26%), first time buyers (23%)
- Motivated to gain a horizontal add-on (31%), vertical add-on (23%), buy a job (22%)
- Located more than 100 miles (54%) or within 50 miles (20%) of the seller's location

$5MM-$50MM: Buyers in this sector were:

- Strategic buyer (40%), PE firms seeking add-on (17%), or PE firms seeking platform deal (14%),
- Motivated to acquire a horizontal add-on (46%), vertical add-on (26%)
- Located more than 100 miles (60%) or within 20 miles (34%) of seller's location

What Are They Buying?

Construction/engineering firms topped the list of hot industries this quarter. Consumer goods/retail also had a strong showing in both the Main Street and lower middle markets. Manufacturing led in the highest value market sector.

FIGURE 12: TOP INDUSTRIES BY MARKET SECTOR

<$500K	**Restaurants 28%**	**Personal Services 19%**	**Consumer Goods 16%**
$500K-$1MM	**Construction/Engineering 19%**	**Consumer Goods 15%**	**Business Services 10%**
$1MM-$2MM	**Construction/Engineering 19%**	**Consumer Goods 13%**	**Manufacturing 11%**
$2MM-$5MM	**(tie) Consumer Goods and Construction/Engineering 15%**		**Business Services 14%**
$5MM-$50MM	**Manufacturing 26%**	**Construction/Engineering 20%**	**(tie) Personal Services/Consumer Goods &**

"Construction companies have had a record run, so it's not surprising to see them at the top of the list. It's a good idea to exit when your business is on top, and these sellers recognize that a strong market means maximum value on exit," said Kyle Griffith, Managing Partner of The NYBB Group.

ABOUT INTERNATIONAL BUSINESS BROKERS ASSOCIATION

Founded in 1983, IBBA is the largest non-profit association specifically formed to meet the needs of people and firms engaged in various aspects of business brokerage, and mergers and acquisitions. The IBBA is a trade association of business brokers providing education, conferences, professional designations and networking opportunities. For more information about IBBA, visit the website at www.ibba.org or follow the IBBA on Facebook, Twitter, and LinkedIn.

ABOUT THE M&A SOURCE

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